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Report of the Director of the Office of Audit and Investigation Services on UNFPA internal audit and investigation activities in 2014

Summary

The present report on the UNFPA internal audit and investigation activities of the Office of Audit and Investigation Services (OAIS) for the year ending 31 December 2014 responds to Executive Board decisions 2011/23 and 2013/24 and earlier pertinent Board decisions.

The report presents a review of activities completed in 2014 by OAIS on internal audit and investigation. The report contains information on (a) the overall audit assessment of the risk exposure of UNFPA; (b) significant issues revealed through OAIS internal audit and investigation activities; (c) investigations, including cases of fraud and actions taken; (d) the review of internal audit recommendations issued in 2010-2014 and their implementation status; and (e) the disclosure of internal audit reports. Annexes 1 to 7 are available separately on the UNFPA website.

Pursuant to Executive Board decision 2008/37, the annual report of the UNFPA Audit Advisory Committee (DP/FPA/2015/7/Add.1) is provided as an addendum to the present report. The management response thereto as well as to the present report is also contained in an addendum (DP/FPA/2015/7/Add.2). The management actions undertaken in follow-up to the 15 recommendations issued by the then Division for Oversight Services in its earlier report (DP/FPA/2011/5) are contained in annex 4, available separately on the UNFPA website.

Elements of a decision

The Executive Board may wish to:

Take note of the present report (DP/FPA/2015/7);

Express its continuing support for the strengthening of the audit and investigation functions at UNFPA, and for the provision of sufficient resources to discharge their mandate;

Acknowledge and support the engagement of the Office of Audit and Investigation Services in joint oversight activities;

Take note of the annual report of the Audit Advisory Committee (DP/FPA/2015/7/Add.1) and the management response (DP/FPA/2015/7/Add.2) thereto and to the present report.

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(N.B. Annexes 1 to 7 are available separately on the UNFPA website)

I. Introduction

1. The present report provides the Executive Board with a summary of the internal audit and investigation activities conducted by the Office of Audit and Investigation Services (OAIS) in 2014,[1] the first complete year in which OAIS operated with its internal audit and investigation mandate. It is also the second full year of public disclosure of internal audit reports.

II. Assurance at UNFPA

A. Mandate

2. Article XVII of the 2014 UNFPA financial regulations and rules, the revised oversight policy[2] and the accountability framework[3] approved by the Executive Board, formed the basis for the OAIS mandate. OAIS solely performs, manages or authorizes others to perform or manage (a) independent internal audit services (effectiveness of the governance, risk management and internal control processes, and economic and efficient use of resources); and (b) investigation services (allegations of wrongdoing). The OAIS Charter was approved by the UNFPA Executive Director on 17 July 2014.

3. The Audit Advisory Committee (AAC) and the United Nations Board of Auditors regularly monitored the quality of OAIS work. The AAC continued to offer advice to promote the effectiveness of audit and investigation services provided by OAIS; it reviewed the 2014 OAIS annual workplan, budget, regular progress reports, annual report and internal audit reports. The United Nations Board of Auditors monitored the actions to implement their recommendations aimed at improving OAIS operations. The external auditors continued to rely on OAIS work and reports in 2014.

4. As in past years, OAIS received support from UNFPA senior management throughout 2014. The OAIS Director attended, inter alia, the meetings of the UNFPA Executive Committee in ex officio capacity, which also provided the Director with a direct opportunity to give advice on governance, accountability or control aspects of new policies or procedures and to comment on any emerging potential risks to UNFPA.

5. In accordance with the professional standards by which OAIS is bound, the OAIS Director hereby confirms to the Executive Board that OAIS enjoyed organizational independence in 2014. OAIS has been free from interference in determining the scope of its work, performing it and communicating its results.

B. Basis for providing independent assurance

6. In 2014, OAIS worked on 22 internal audit engagements; 1 was in an advisory capacity and 2 were undertaken jointly with other organizations of the United Nations system. As in previous years, to maximize resource use, engagements were planned to reach different stages of completion (ranging from 'ongoing' to 'concluded and report issued') at the end of 2014.

[1] The name was changed to the Office of Audit and Investigation Services after the Executive Board approved, in decision 2014/19, the revised Financial Regulations and Rules.
[2] Executive Board decision 2015/2.
[3] DP/FPA/2007/20.

7. As of 31 December 2014, OAIS issued 10 internal audit reports, with all but one being publicly available. The list of all internal audit reports, with their rating, is included in annex 1; it is also available on the UNFPA website,[4] in accordance with Executive Board decisions 2008/37 and 2011/23.

8. Six country office internal audit reports and one on the Somalia Common Humanitarian Fund, issued in 2014, reported on the status of operations and activities in 2012 and 2013 and, in selected cases, in 2011 and the first half of 2014. In total, they covered expenses amounting to $67.8 million. Additional assurance came from the joint audit of a joint programme in which UNFPA is a participating organization, with related expenses attributable to UNFPA amounting to $3 million in the period under review, and the audit of the user provisioning and authentication processes concluded in 2014. Further, the control instituted by management over funds transferred to implementing partners through national execution audits provided additional assurance on $165 million in expenses that were incurred in 2013.

III. Resources

A. Human resources

9. As of 31 December 2014, OAIS had 21 approved posts: 17 at the professional level (see table 1) and 4 at the general-service level.

10. At the end of 2014, 14 of the 17 approved professional posts were encumbered and the remaining three (two in internal audit and one in the Directorate) were under recruitment. Past difficulties in identifying suitably qualified candidates, compounded by delays in the entry-on-duty process, remained valid in 2014. The overall vacancy rate in OAIS was 16 per cent in 2014, compared to 10 per cent in 2013 (see table 1).

Table 1
Human resources in the Office of Audit and Investigation Services in 2013 and 2014

	Number of approved professional posts		Percentage vacant		Vacancy adjusted professional posts	
	2013	2014	2013	2014	2013	2014
Internal Audit Branch	8	10	17%	21%	6.7	7.9
Investigation Branch	5	5	3%	0%	4.8	5.0
Directorate	2	2	0%	33%	2.0	1.3
Total	**15**	**17**	**10%**	**16%**	**13.5**	**14.2**

B. Financial resources

11. In 2014, OAIS became solely funded from the UNFPA institutional budget, unlike previous years where funding also came from UNFPA global and regional programmes and other resources. The total 2014 budget for internal audit and investigation services, adjusted for the 2014 actual vacancy rate, amounted to approximately $5.2 million. Overall, there was an increase in adjusted budget funding by roughly 18 per cent, compared with 2013 ($4.4 million), which corresponds mainly to the different vacancy rate mentioned above (see details in table 2).

[4] Available at: http://www.unfpa.org/public/home/about/oversight/auditreports.

Table 2
Overview of financial resources, 2013-2014*

Function	2013			2014		
	Authorized posts	**Vacancy adjusted posts**	**Vacancy adjusted budget** *(in $ million)*	**Authorized posts**	**Vacancy adjusted posts**	**Vacancy adjusted budget** *(in $ million)*
Internal Audit	9 (8+1)	7.7 (6.7+1)	*2.3*	11 (10+1)	8.9 (7.9+1)	*3.0*
Investigation	6 (5+1)	5.8 (4.8+1)	*1.3*	6 (5+1)	6 (5+1)	*1.3*
Directorate excluding AAC **	4 (2+2)	4 (2+2)	*0.6*	4 (2+2)	3.3 (1.3+2)	*0.7*
AAC	-	-	*0.2*	-	-	*0.2*
OAIS	**19 (15 + 4)**	**17.5 (13.5 + 4)**	***4.4***	**21 (17 + 4)**	**18.2 (14.2 + 4)**	***5.2***

* In parentheses and italics, the number of professional and general services staff.

** In 2013, the OAIS Director is reflected as 100 per cent in the OAIS figures; no costs were charged to the evaluation function.

IV. Internal audit

A. Risk-based audit planning

12. OAIS executes its assurance activities based on a risk-based audit plan, approved by the Executive Director after review by the Audit Advisory Committee. The plan is based on a documented risk assessment of the audit universe, which is composed of 139 business units[5] and 41 corporate processes. Risk is measured through a set of factors, representing the potential impact and likelihood of events that might adversely affect the achievement of objectives of the business units and processes assessed.

13. The business unit audit risk assessment is based on financial and programmatic information indicative of (a) materiality of programme expenses; (b) programme complexity; (c) programme changes; (d) operational complexity; (e) programme performance; (f) quality of governance and control of fraud and corruption[6] in the country where the unit is located; (g) business unit capacity to manage the programme, and (h) results of consultations with management at headquarters and regional offices. The assessment further incorporates the results and dates of internal or external audits undertaken thus far.

14. A separate risk model is used for the audit risk assessment of corporate processes, reflecting factors relative to (a) financial materiality; (b) process impact and complexity; (c) level of change affecting these processes; (d) effectiveness of the controls and systems in place; and (e) capacity of the business units responsible for managing the process controls and systems. The model also reflects consultations with relevant headquarters management.

[5] Country offices, regional and subregional offices, liaison offices and headquarters units involved in programme delivery activities.
[6] Based on indicators published by the World Bank.

B. Results of the 2014 audit risk assessment to support the 2015 internal audit workplan

15. The risks to which UNFPA is exposed have not fundamentally changed, compared to 2013. These arise primarily from highly decentralized operations conducted in 139 business units worldwide (see Table 3), several of which operate in fragile settings, and from complex programmes implemented at global, regional and country levels, covering different thematic areas. The programmes are delivered by numerous implementing partners, with varying degrees of capacity, supported by multiple workplans developed and managed with limited integrated systems and tools. The risk derived from programme complexity has been partially mitigated by the focus on fewer outcomes and outputs, more closely aligned to core mandate areas. The global programming system introduced at the end of 2014, which automates and integrates the preparation, approval, maintenance and system set-up of workplans, is expected to further mitigate programmatic risk.

16. Additional complexity, and hence risk, stems from (a) the need to rapidly and concurrently scale up humanitarian response activities in several programme countries; (b) the large and dispersed workforce, including an extensive use of individual consultants; (c) the large commodity security programme, which implements the procurement and distribution of a significant volume of contraceptives to national partners, with multiple supply-chain management challenges; (d) the significant level of local procurement of goods and services, with limited monitoring; (e) the increasing proportion of non-core funding, with specific compliance and reporting requirements, increasing the workload for business units; (f) the large volume of financial transactions required to execute programme activities; and (g) the robustness of the information and communication technology (ICT) platform.

17. Table 3 below summarizes the audit assessment results for business units and corporate processes, by audit risk-level.

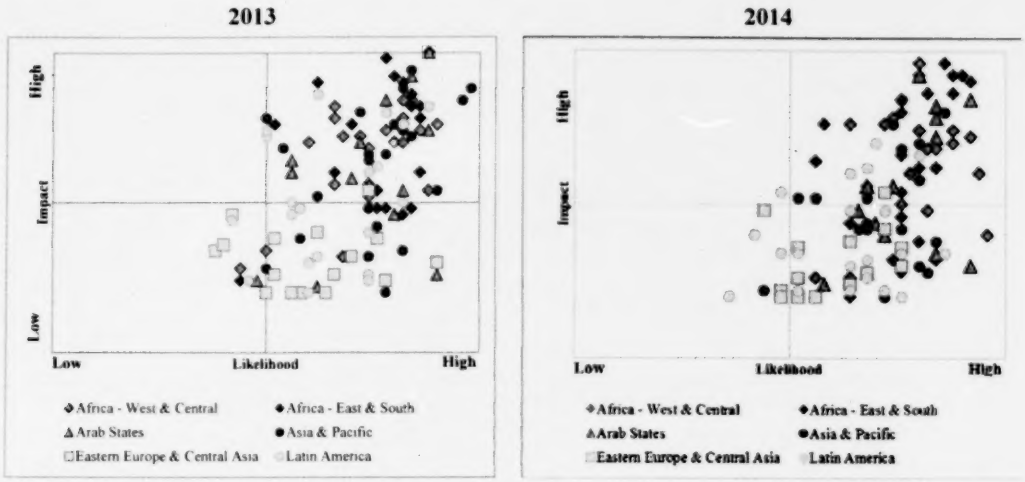
Table 3
Overview of audit risk assessment results for 2014

Entity assessed	High risk	Medium risk	Low risk	Total
Country and subregional offices	25	49	47	121
Regional offices	1	5		6
Liaison offices	-	-	6	6
Headquarters units involved in programme delivery (global interventions)	1	4	1	6
Total business units	**27**	**58**	**54**	**139**
Corporate processes	**21**	**18**	**2**	**41**

Business unit audit risk assessment

18. Figure 1 below summarizes the results of the 2013 and 2014 audit risk assessment for field offices, which managed expenses amounting to $701 million in 2013 (74 per cent of total annual expenses) and $762 million in 2014 (76 per cent of total annual expenses).

Figure 1
Field offices audit risk assessment



19. Overall, there was limited change in the risk profile. The concentration of points in the upper right quadrant continues to reflect the increased focus on several programme countries through corporate priorities, such as the family planning strategy, particularly in the East and Southern Africa, West and Central Africa, and Asia and the Pacific regions. Figure 1 also reflects the higher risk resulting from the increased number and size of humanitarian activities in the Arab States region.

20. The concentration of points in the upper and lower right quadrants further reflects the persistent risks affecting field office operations. These include (a) high vacancy levels in key managerial and operational positions; and (b) recurring control weaknesses in the following areas: (i) programme planning and implementation; (ii) programme and financial monitoring; (iii) national execution; (iv) inventory management; and (v) compliance with policies and procedures in certain operational areas. They will be elaborated in section C infra.

Corporate audit risk assessment

21. The corporate audit risk assessment identified, in both 2013 and 2014, the following five key audit risk areas:

(a) The implementation of the new business model, resource allocation system and integrated results framework of the strategic plan 2014-2017;

(b) The implementation of the new global and regional interventions and other key corporate initiatives;

(c) The adequacy of governance arrangements, including the role and responsibilities of regional offices, country offices and headquarters, to support an effective implementation of the new strategic plan and to address the issues raised, in particular, in the audits of governance arrangements in support of country office programme delivery (2011), and of the global and regional programme (2013);

(d) Delays in the finalization of the internal control framework and in the implementation of a comprehensive enterprise risk management (ERM) process; and

(e) The operationalization of the new human resources strategy, including the effectiveness of the leadership pool process, aimed at improving vacancies in key positions, the transfer of some human resources management functions to regional offices and the partial decentralization of recruitment activities.

22. Corporate processes assessed as high risk include:

(a) Programme management, in view of (i) recurring audit issues therein; (ii) the ability of field offices to implement the revised policies issued since 2012; and (iii) the changes resulting from the new global programming system implemented at the end of 2014;

(b) Procurement, with the large volume of headquarters-managed contraceptive procurement, including third-party procurement, and the continued significance of procurement of other goods and services in field offices;

(c) Supply-chain and inventory management, with the logistical challenges of distributing a larger volume of contraceptives, and control effectiveness issues affecting this process;

(d) Implementing partner management, given the large number of partners and their varying capacity levels, the issues affecting the implementing partner capacity assessment process identified by both OAIS and the United Nations Board of Auditors, as well as the new national execution assurance arrangements, arising from the implementation of the revised harmonized approach for cash transfers (HACT) to implementing partners, which UNFPA is piloting in the period 2014/2015;

(e) Financial monitoring of implementing partners, a process not operating effectively as country office audits illustrated;

(f) Resource mobilization and management of non-core resources, due to the growing relevance of co-financing and the new resource mobilization strategy aimed at expanding the UNFPA donor base;

(g) Humanitarian response, given the increased frequency and complexity of such interventions;

(h) Provision of quality-assured technical assistance to field units;

(i) Budget management, with the implementation of the integrated budget, resource distribution system and cost-recovery policy; and

(j) ICT, particularly the ability to timely and successfully implement critical systems and services, like the strategic information system, the second phase of the global programming system and the Atlas[7] contract management and e-tendering modules.

C. Internal audit activities in 2014

23. The 2014 internal audit workplan was based on the 2013 audit risk assessment presented in document DP/FPA/2014/6 (pages 8-10) and on assumptions regarding available resources (internal audit staff, augmented by staff from audit services firms and individual consultants), duration of audit phases (planning; field work; drafting; finalization, with management answers), no swap of engagements and limited advisory activities.

24. The plan therefore included 26 engagements, covering a mix of 7 high-risk and 6 medium-risk business units, 8 high-risk corporate processes, 4 joint audits with other United Nations internal audit services (decided at inter-agency level) and one engagement in advisory capacity. In order to maximize resources, engagements were planned to reach varying degrees of completion by year-end, with 23 final reports planned to be issued.

25. Table 4 presents a comparison of 2014 planned versus achieved audit engagements. Of the 26 engagements planned, 1 was aborted because of the Ebola outbreak (after completion of planning, just before the field mission); 3 were postponed (due to security situations, impeding organizational changes and the OAIS staffing situation). Despite the extensive use

[7] Atlas is the (PeopleSoft-based) enterprise resource management system of UNFPA.

of audit services firms and individual consultants, the remaining 22 experienced delays due to various reasons: (a) lengthy negotiations of contractual agreements with contracted firms; (b) swapping three audits in consultation after discussions with management; (c) challenging OAIS staffing capacity (absence of planned P3 staff under recruitment; departure of a P4 auditor, although the impact was minimized by using the roster; integration of two new P4 auditors); (d) longer and more intense interactions with management on draft reports; (e) unpredictable and increased advisory demands (see section F); as well as (f) the challenges of writing reports for the public. This contributed to issuance of 10 final reports; management answers to 5 draft reports were awaited; 6 reports were in drafting; and one audit was in field work.

Table 4
Overview of engagements in 2014

Status	Business units (a)	Corporate processes	Advisory (b)	Total
Summary of 2014 planned engagements				
Draft reports issued by year-end 2013 to finalized in 2014	2		-	2
Audits started in 2013 to be completed in 2014	5	3		8
Audits started and to be completed in 2014 (c)	10	2	1	13
Total reports to be issued in 2014	**17**	**5**	**1**	**23**
Audits started in 2013 to be completed in 2015 (c)	3			3
Total engagements	**20**	**5**	**1**	**26**
Summary of engagements undertaken				
Audits started prior to and completed in 2014 (d)	4	1		5
Audits started and completed in 2014	4		1	5
Total reports issued in 2014	**8**	**1**	**1**	**10**
Draft reports issued by year-end 2014 (e)	5			5
Audits to be completed in 2015 (f)	4	3		7
Total engagements	**17**	**4**	**1**	**22**
Ebola: audit aborted after planning completion	**1**			1
Postponed	**1** (g)	**2** (h)		3
Engagements cancelled/postponed	**2**	**2**	**0**	**4**

Notes:
(a) Includes country offices, headquarter units and joint audits
(b) Limited scope review of the UNFPA 2014 financial statements
(c) Included two joint audits
(d) Includes one joint audit
(e) Include one joint audit; Three reports issued until end February 2015
(f) Includes three audits swapped ; Six were at draft reporting stage at year-end
(g) Security situation
(h) UNFPA organizational changes (one) / OAIS workload (one)

Resulting audit coverage

26. The resulting average audit cycle for 2010-2014 was 10 years for high-risk business units, 18 years for medium-risk ones and 19 years for corporate processes. Based on the resources approved for internal audit in the institutional budget 2014-2017, and without changing assumptions except a full staff complement,[8] it is expected that for 2015-2019, high-risk business unit coverage would increase to an average 6-year cycle, medium-risk ones to 13 years and corporate processes remain constant.

27. To reach a cycle of 5 years (high-risk), 10 years (medium-risk) and 15 years for corporate processes will require additional resources. Assurance for low-risk business units is planned through a continuous auditing process,[9] which will be implemented starting in 2015 (it was planned for 2014 but deferred due to delays in recruiting the human resources required to implement and operate the process).

D. Key findings of internal audit activities

Country office audits

28. In 2014, OAIS issued six country office audit reports and one on the UNFPA activities funded by the Somalia Common Humanitarian Fund. The audits covered three standard areas and the processes therein as detailed below, the scope and depth of review depending on the results of the engagement's audit risk assessment conducted at the planning phase:

(a) *Office governance*: (i) office management, (ii) organizational structure and staffing, and (iii) risk management;

(b) *Programme management*: (i) programme planning and implementation; (ii) national execution, (iii) inventory management (iv) management of non-course resources; and

(c) *Operations management*: (i) human resources, (ii) procurement, (iii) travel, (iv) asset management, (v) financial management, (vi) information and communications technology; and (vii) safety and security.

29. The audit rating is based on the assessment of the governance, risk management and internal control processes in place. Of the seven reports, four (57 per cent) were rated as 'partially satisfactory'[10] and three (43 per cent) as 'unsatisfactory',[11] as set out in annex 1. Ratings were also provided by area, as defined in paragraph 28 above, and summarized in Table **5**.

Table 5
Audit ratings by area for 2014

Area	Satisfactory		Partially satisfactory		Unsatisfactory	
	Number of offices	Per cent	Number of offices	Per cent	Number of offices	Per cent
Office governance	1	14%	5	71%	1	14%
Programme management	0	0%	3	43%	4	57%
Operations management	3	43%	4	57%	-	0%

[8] As mentioned in paragraph 23.
[9] Review, from headquarters, of documentation and information on selected key controls and significant financial transactions of low-risk units.
[10] One or more issues were identified that could negatively affect the achievement of the objectives of the audited entity.
[11] One or more issues were identified that could seriously compromise the achievement of the objectives of the audited entity.

Main findings

30. The main areas for improvement revealed in 2014 are consistent with those identified and reported in previous years, as well as with the annual audit risk assessment results. Key findings (good practices and improvement opportunities) are presented below by area and sub-area, mirroring the structure of country office audit reports. A tabular overview is included in annex 2.

(i) Office governance

31. Several good practices noted could be expanded to other UNFPA offices. Regular staff meetings to exchange information, monitor programme implementation and improve coordination of programmatic and operational activities were commonly observed. Some offices also prepared clear and relevant office management plans, and their staff demonstrated a clear understanding of their roles and responsibilities, as well as of policies and procedures. Another office effectively leveraged its decentralized structure to enhance support to, and monitoring of, implementing partners at the locations where programme activities were implemented.

32. The audits continued to identify the need to (a) address extended vacancies in key positions and reduce their duration; and (b) enhance the support from, and oversight by, regional offices and headquarters for those offices experiencing such situations. Improvements in this area are expected with the ongoing implementation of the leadership pool process. Another improvement needed is the regular review of the organizational structure and personnel of country offices to align capabilities and contract modalities to programme delivery needs, particularly when preparing new country programmes. The operationalization of the human resources strategic partner network, based in regional offices, is expected to contribute to that improvement.

33. The audits continued to stress the need for improving risk management, in particular the regular updating of the fraud and operational risk assessments, ensuring that well-defined processes exist to identify, assess and log risks, as well as to define and implement risk mitigation actions. The integration into a comprehensive ERM process, with corporate guidelines and training, is paramount to improve efficiency and effectiveness in this area.

(ii) Programme management

a. Programme planning, implementation and monitoring

34. The audits revealed several effective workplan management and budgeting practices that could be considered for replication throughout UNFPA; for instance, the implementation of the 'di-Monitoring' tool to track and report on programme targets and milestones as well as to maintain all monitoring reports and data in a single repository. Another example is a highly effective system for filing and retrieving project-related documentation.

35. Notwithstanding enhancements to corporate guidelines since 2012, the audits continued to reveal areas for improvement in programme management, including (i) a more timely finalization of key programme documents and workplans; (ii) improved programme financial management and budgetary controls; (iii) a better workplan system set-up in Atlas. Improvements are expected with the implementation of the global programming system in December 2014.

36. The audits stressed the continued need to monitor more consistently and rigorously the implementation of programme activities and results achieved, as well as to enhance controls, ensuring that only allowable expenses (i.e., programme expenses that cannot be allocated to specific programme outputs) are charged as programme coordination and assistance costs.

b. National execution

37. There is potential for replication of customized templates or applications facilitating the submission, review and approval of cash advance requests and expenditure reports by implementing partners.

38. Management attention is necessary to ensure that implementing partners are engaged after their capacity has been thoroughly and comprehensively assessed. Such assessment should cover both programmatic capacity, using the UNFPA implementing partner capacity assessment tool (IPCAT), and financial management capacity, using the HACT micro-assessment checklist, promptly combining both tools into one. Management should also enhance training and develop guidelines on conducting more effective assessments that provide a holistic view of implementing partner capacity and development needs, and better support the selection of appropriate cash transfer modalities as well as the nature and frequency of programmatic and financial monitoring activities. Further, it was stressed repeatedly during the audits that significant management attention needed to be paid to financial monitoring to ensure that funds were used for their intended purposes.

39. Controls over the operating fund account management process have consistently improved over the past years, with more robust monitoring thereof performed by headquarters staff and an effective national execution audit process. However, recurring occurrences of funds transferred to implementing partners outside the operating fund account process continued to be noticed. Similarly, recurring instances of activities carried out by implementing partners that were recorded as direct execution by UNFPA, instead of national execution, were identified. These recurring situations reduce management assurance on the appropriate utilization of funds provided to implementing partners as the related expenses are not subjected to national execution audits. More details on operating fund account and national execution status are presented in annexes 2 and 5.

c. Inventory management

40. The initiation of sexual and reproductive health commodities custom clearance, two months prior to their expected arrival, should be considered for replication in other countries.

41. Additional management attention is required to improve the operating effectiveness of inventory management controls and to reinforce compliance with the inventory management policy issued in December 2012.

42. In particular, there is a need to (a) consistently perform and document receiving and inspection controls; (b) improve warehouse management and inventory tracking and accounting controls; (c) better document the handover of inventory to implementing partners; and (d) monitor reproductive health commodities inventory held by implementing partners, as well as its timely distribution and availability at service delivery points. Of particular relevance were instances of extended delays in custom clearance of shipments, which may have adversely affected the availability of commodities and contributed to increased stock-out levels.

d. Management of non-core resources

43. The audits did not identify pervasive issues in this area. An instance was noted where a co-financing agreement which deviated from the approved template was signed without undergoing legal review.

(iii) Operations management

a. Procurement

44. Long-term agreements were effectively used to expedite the procurement and distribution of dignity kits, as part of emergency preparedness planning. While, overall, the effectiveness of procurement controls further showed improvement throughout 2014, primarily as a result of capacity building efforts and additional guidelines and tools, the audits continued to reveal instances of lack of compliance with procurement procedures in the areas of bidding, contract award and submission, which were not identified and addressed in a timely manner due to the lack of managerial oversight controls. Recurring opportunities to expand the use of long-term agreements to increase procurement efficiency and value-for-money were noticed.

b. Human resources

45. The audits continued to identify the need for improved compliance with the policies and procedures applicable to awarding and managing service contracts and special service agreements. Compliance with mandatory training requirements should also be reinforced.

c. Financial management

46. To enhance the overall reliability of information for financial reporting and monitoring purposes, management attention continued to be called on recording expenses to the correct project, activity, fund and general ledger account codes. In addition, improved handling of value-added tax is called for, which would include more effective controls over reimbursable value-added tax accounting; the timely submission, follow-up and reconciliation of tax reimbursement claims; and approaches to minimize the financial impact on non-tax-exempted project activities executed through implementing partners.

Recommendations made

47. Overall, 90 recommendations were issued in relation to country office audits (as detailed in figures 2, 3 and 4); 39 recommendations (43 per cent) were rated as high priority, while the remaining 61 (57 per cent) were rated as medium priority. Almost two thirds of the recommendations concerned programme management matters. The analysis continues to stress 'guidance' over 'guidelines', that is, strengthening supervisory controls ('guidance': 72 recommendations – 62 per cent), as opposed to issuing more policies ('guidelines': 10 recommendations) or providing more resources (6 recommendations). This should be contrasted with the higher proportion of 'operational' recommendations (54 per cent) and the lower one for 'compliance' matters (26 per cent), except in the area of 'office governance', which is primarily of strategic nature.

Figure 2
Country office audit recommendations – by priority level

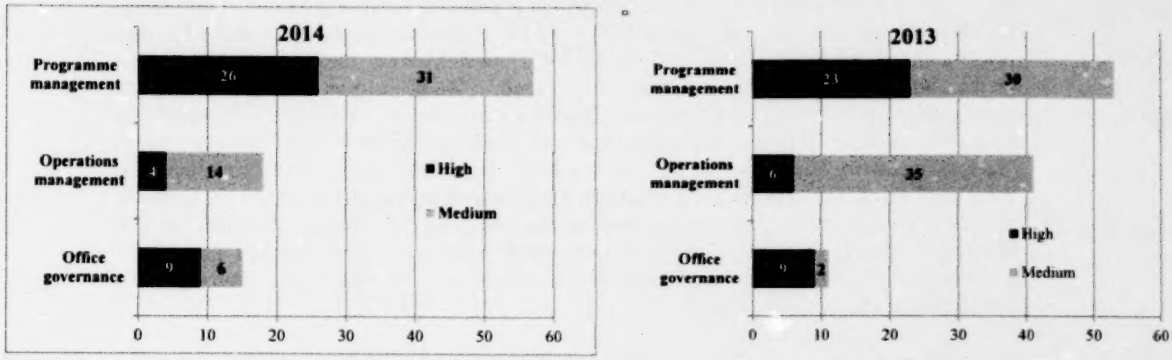


Figure 3
2014 Country office recommendations - by type

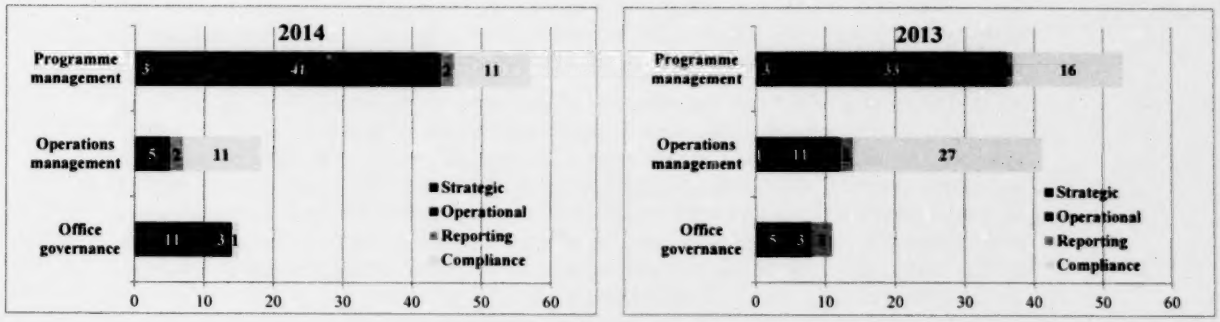
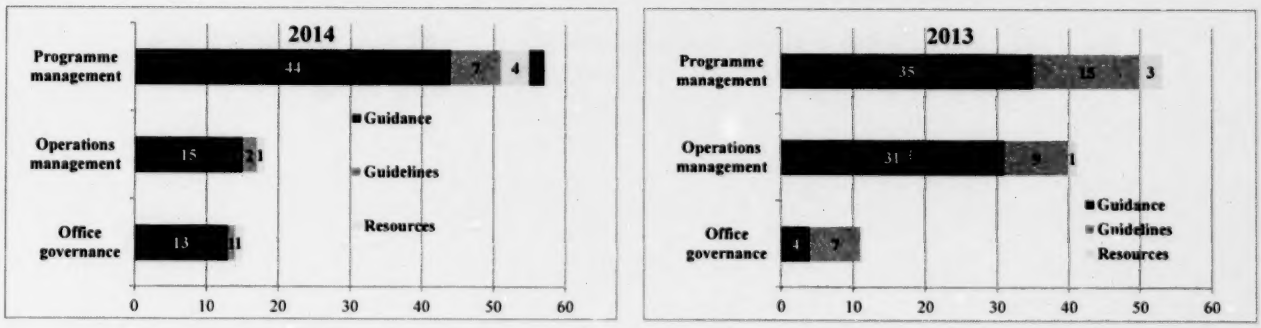


Figure 4
2014 Country office audit recommendations - by cause



Joint audit

48. OAIS participated in the joint audit of the Pakistan "Delivering as one" programme, which was rated 'partially satisfactory'. Seven of the recommendations[12] were ranked as high priority and addressed to the United Nations Development Group, the Resident Coordinator or the country team. Recommendations were related to the need to harmonize and integrate humanitarian and development processes, and the development of guidance and tools for better coordination thereof in transition countries; to ensure full local implementation of the "Delivering as one" management and accountability framework for the monitoring thereof at the global level. Further, the need to (a) strengthen the monitoring framework for strategic priority areas; (b) ensure that monitoring structures and processes operate effectively; and (c) develop a strategy and an action plan to harmonize business processes and procedures. Progress on recommendation implementation is tracked and reported by the United Nations Development Programme (UNDP).

Corporate processes and headquarters units

Audit of the user provisioning and authentication system

49. This audit aimed at assessing the reliability of controls related to the process and systems used to authorize and provide user access to the corporate network and to Atlas, as well as to authenticate user access. The rating was 'partially satisfactory'.

50. The audit revealed that the user provisioning process was supported by an internally developed system providing functionality comparable to that offered by leading third-party systems. The audit highlighted several issues requiring management attention, including the underlying internal control framework limitations, the unlimited Atlas approval rights granted to senior managers, the lack of effectiveness of the annual Atlas access rights certification and office information verification processes, and the use of some software no longer supported by the vendor. The audit further revealed weaknesses in password management, a deficiency addressed immediately after audit completion.

E. Follow-up of internal audit recommendations

Outstanding recommendations

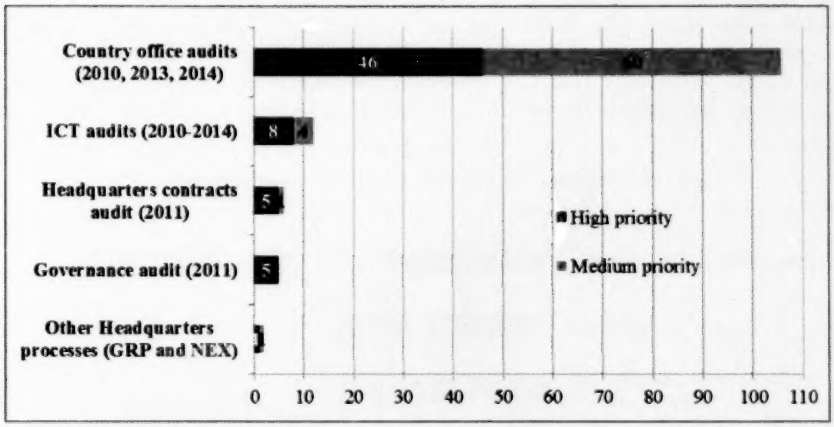
51. OAIS assessed 93 recommendations, as implemented in 2014. As shown in table 6 and figure 5, some 131 recommendations[13] were outstanding as at 31 December 2014.

[12] Excluded from the UNFPA number of recommendations.
[13] The status of joint audits is excluded from this figure, and is reported by UNDP.

Table 6
2014 Status of implementation of audit recommendations by year

Year	Number of reports	Recommendations issued	Outstanding recommendations	
			2013	2014
2010	57	1 976	6 (~0%)	2 (~0%)
2011	11	248	27 (11%)	13 (~5%)
2012	3	37	8 (22%)	0 %
2013	12	112	82 (73%)	21 (19%)
Subtotal	**71**	**2 373**	**123 (2%)**	**36 (~2%)**
2014	9	101	N/A	95 (94%)
Total	**80**	**2 474**	N/A	**131 (5%)**

Figure 5
Recommendations outstanding as at 31 December 2014*



(*) NEX – National execution modality
OFA – Operating fund account
GRP – Global and Regional Programme

52. As shown in figure 5, 106 (82 per cent) of the outstanding recommendations pertain to country offices audited in 2013 and 2014, and only one remains from previous years; 46 recommendations were rated as high priority; 60 recommendations correspond to programme management issues, primarily related to national execution (31 recommendations), programme planning and implementation (17), and inventory management (12); 28 recommendations correspond to operations matters (12 of which pertain to financial management); and 16 to office governance. Opportunities for improvement were elaborated previously in paragraphs 30 to 46.

53. Of the 12 outstanding recommendations related to information and communications technology controls (8 of which are of high priority), 10 correspond to the audit of the user provisioning and authentication process completed in 2014; the remaining two stem from previous years' audits, resulting from management's efforts to develop new policies and enhance core processes in this area.

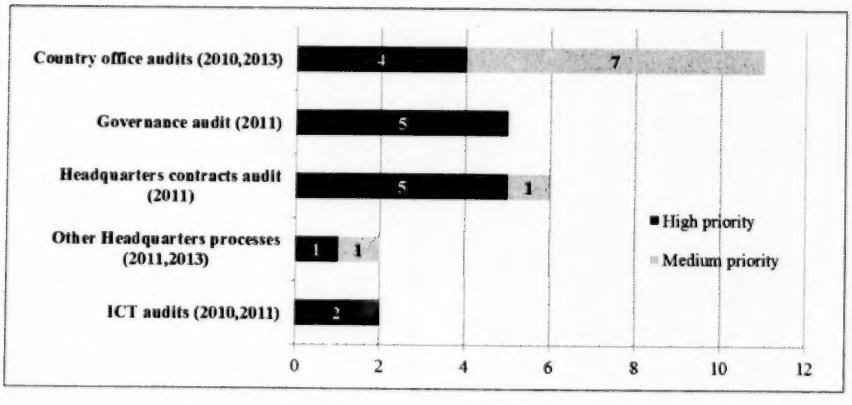
54. Management actions to address the six outstanding recommendations from the 2011 headquarters contracts audit, mostly of high priority, have been ongoing since 2012, albeit with limited progress during 2014, with one recommendation closed. The remaining relate to (a) more clearly defining the ownership of the contract management process, and enhancing the policies and procedures manual and the internal control framework thereon; (b) introducing an integrated contract management system; (c) designing and implementing preventive controls to enforce contract award approval requirements; (d) implementing stronger accounts payable controls; and (e) enhancing the vendor performance assessment process.

55. The five outstanding recommendations from the 2011 governance audit relate to (a) better defining regional office roles and activities, including those related to country office oversight; (b) monitoring the regionalization efforts; (c) improving programme financial-management mechanisms; and (d) enhancing tools and training to build the country offices' monitoring capacity. Management actions to implement these improvement opportunities have been ongoing since 2012, with five recommendations closed in 2014.

Recommendations unresolved for 18 months or more

56. Of the 131 open recommendations, 26 remained unresolved for 18 months or more as at 31 December 2014, compared to 41 recommendations in 2013 (see figure 6; a detailed list of recommendations is provided in annex 3). Of the 26 recommendations, 10 related to country office recommendations from audits completed in the first half of 2013 and one to a 2010 audit. Information regarding those from the governance, headquarters contracts and ICT audits was elaborated previously in paragraphs 30 to 46.

Figure 6
Recommendations unresolved for 18 months or more



F. Compliance with the oversight policy – disclosure of internal audit reports

57. The procedures for disclosure, as stipulated in DP/FPA/2008/14 and amended by subsequent Executive Board decisions in 2011, were in force throughout 2014. No request for disclosure following those procedures was received in 2014.

58. All internal audit reports issued after 1 December 2012 have been public, within one month of internal issuance. The reporting period (2014) was the second year of public disclosure. Report clarity and quality remain a matter of continuous attention for OAIS, with time and effort invested in drafting and finalizing them. Management attention was also

heightened, focussing on content and ratings. Overall, public disclosure continues to lead to an active dialogue.

V. Investigation

59. The Investigation Branch of OAIS is responsible for conducting investigations into all types of allegations of wrongdoing:

(a) Misconduct by UNFPA staff, ranging from fraud and corruption to workplace harassment, abuse of authority, retaliation against whistle-blowers, sexual exploitation and abuse, and other violations of applicable regulations, rules and administrative or policy issuances. These are referred to as 'internal cases' and 'internal investigations'; and

(b) Failure by independent contractors, implementing partners and other third parties to comply with its, his or her obligations, including fraud and other financial irregularities, committed to the detriment of UNFPA. These are referred to as 'external cases' and 'external investigations'.

A. Caseload

60. In 2014, OAIS received 71 complaints, an increase of 233 per cent, compared to 2012; and an increase of 16 per cent, compared to 2013.[14] Together with the 34 cases carried forward from 2013, this resulted in a total caseload of 105 cases in 2014, compared with 42 cases in 2012 and 81 cases in 2013, respectively (see table 7). The increase stems from more allegations of harassment, the expanded OAIS mandate to include external investigations, and more reporting of proscribed practice[15] situations.

Table 7
Overview of cases received and closed in 2014(*)

	2012	%	2013	%	2014	%
Cases carried over						
- from 2012 or earlier	19	*45%*	20	*25%*	2	*2%*
- from 2013				*0%*	32	*30%*
Complaints received	23	*55%*	61	*75%*	71	*68%*
Total caseload	**42**	***100%***	**81**	***100%***	**105**	***100%***
Cases closed						
After preliminary assessment	17	*77%*	40	*85%*	41	*67%*
After full investigation	5	*23%*	7	*15%*	20	*33%*
of which substantiated	4	*18%*	6	*13%*	15	*24%*
unsubstantiated	1	*5%*	1	*2%*	5	*8%*
Total cases closed	**22**	***100%***	**47**	***100%***	**61(**)**	***100%***
Cases carried over to the following year	**20**		**34**		**44**	
of which internal	20	100%	28	82%	27	61%
external	-	-	6	18%	17	39%

(*) A complaint may contain several allegations pertaining to different individuals, and lead to several reports, as appropriate.
(**) Includes two cases for other United Nations agencies.

[14] Excluding information received marked 'for information'.
[15] See definition in the revised oversight policy DP/FPA/2015/1.

61. The figures above exclude the numerous requests for information or advice which OAIS additionally deals with. Ten of them were recorded internally 'for information', as they might develop into complaints.

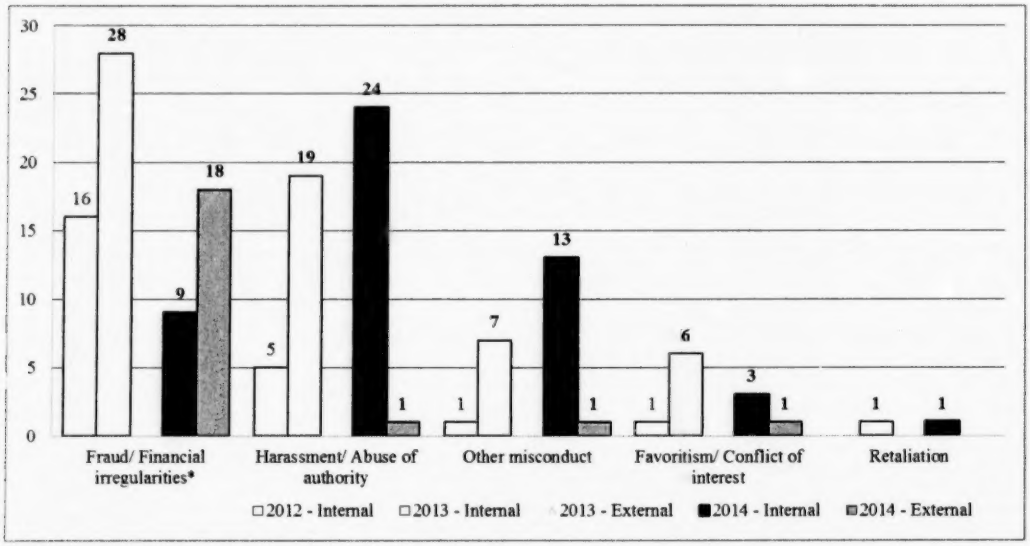
62. Of the 44 open cases carried over to 2015, all but 3 were received in 2014; 27 related to staff members (internal cases); and 17 to external cases.

63. Fraud and financial irregularities represented 50 per cent of all carried-over cases, followed by other misconduct[16] (28 per cent), harassment and abuse of authority (20 per cent), and conflict of interest (2 per cent). Fraud and other financial irregularities represented 88 per cent of external cases.

B. Types of complaints

64. As illustrated in figure 7 below, 27 cases (38 per cent) of fraud and financial irregularities were received in 2014 (9 internal and 18 external). The relative decrease, compared with 2012 (70 per cent - 16 cases) and 2013 (46 per cent - 28 cases), respectively, is due to the expanded OAIS mandate. Workplace harassment and abuse of authority soared, with 25 cases (35 per cent) of complaints received in 2014, all internal, compared to 5 in 2012 and 19 in 2013, respectively. Allegations of other forms of misconduct without financial implications (e.g. death or physical threats, leakage of confidential information, unauthorized outside activity, misuse of assets, racist/inappropriate language) was the third category in 2014 (14 cases - 20 per cent, mainly internal; versus 1 case in 2012 and 7 cases in 2013). Allegations of conflict of interest and favouritism followed (4 cases - 6 per cent, mainly internal). As in 2013, one case (1 per cent) concerned an allegation of retaliation against whistle-blowers (internal case).

Figure 7
Overview of complaints received in 2013 and 2014



* Includes the subcategories of procurement fraud, entitlement fraud, misrepresentation and misuse of UNFPA resources.

[16] Ranging from death or physical threats, leakage of confidential information, unauthorized outside activity, misuse of assets, to racist/inappropriate language.

65. Wrongdoing was reported by email directly to OAIS (68 per cent of complaints received in 2014), through the OAIS confidential investigation hotline (16 per cent), or via other means (17 per cent), including referrals from entities external to OAIS or UNFPA.

C. Disposition of cases

66. After receipt of a complaint, OAIS conducts a preliminary assessment to determine whether there are reasonable indications of wrongdoing. When OAIS determines that there are insufficient grounds to merit a full investigation, the matter will be closed, documented with a closure note and, when appropriate, referred for informal resolution. If the assessment establishes sufficient indications that wrongdoing has occurred, OAIS opens a formal investigation, which may cover a number of allegations. Should the allegation(s) be substantiated, OAIS issues an investigation report by subject (staff, other personnel or entity involved) to the Executive Director, for appropriate administrative or disciplinary action and, when appropriate, for recovery of funds or assets. When an investigation reveals systemic weaknesses in internal controls, OAIS may issue a separate communication to management with certain recommendations to address them.

67. Of the total caseload of 105 cases, 61 were finalized in 2014: 41 after a preliminary assessment and 20 after a full investigation (see table 7). Of the latter, 15 cases were substantiated, several of which were complex in nature, with multiple allegations. Investigation reports were issued for all cases. Table 8 below provides an overview by type of allegation. Further details appear in annex 6.

Table 8
Overview of 2014 substantiated allegations (*)

Type of allegation	External	Internal	Total
Other misconduct	21%	17%	38%
Fraud	17%	17%	33%
Favouritism	0%	13%	13%
Financial irregularities	4%	8%	13%
Harassment and abuse of authority	0%	4%	4%
Total	**42%**	**58%**	**100%**

(*) related to UNFPA

68. The approximate aggregate value of 2014 substantiated cases that involved fraud and financial irregularities amounted to $19,000.

D. Disciplinary measures or sanctions taken

69. Of the cases substantiated in 2013, funds recovered at year-end amounted to $99,007.22 (51 per cent of identified losses); staff were separated in all cases, except where the subjects had resigned in the stages following investigation (see details in annex 7).

70. Of the cases substantiated in 2014, at year-end, management raised charges and was awaiting comments in four cases, separated or reprimanded staff (one case each), and was reviewing the remaining cases, except where the subject had already resigned (see details in annex 6).

E. Strengthening practices

71. In 2014, OAIS further strengthened its investigative procedures and practices. It revisited its investigation manual to ensure compliance with emerging jurisprudence and recognized best practices. It prepared investigation guidelines for sharing information and educating about the investigative process. Final issuance will depend on available capacity.

F. Investigation capacity challenges

72. Cases, particularly external ones related to fraud and financial irregularities, are often complex and resource-intensive; those of harassment and abuse of authority are particularly time-consuming and resource-intensive, and require a particular skill set.

73. The expected increase in caseload noted in the OAIS report for 2013 did materialize, with a 150 per cent rise between 2012 and 2014, and with new cases alone increasing by 223 per cent. The caseload now exceeds current OAIS capacity, with an average number of cases[17] per investigator increasing from approximately 10 cases per investigator in 2012 to 23 cases in 2014. In an attempt to cope with the caseload, in 2014, OAIS continuously relied on the support of experienced investigation consultants. This situation, however, is not sustainable.

VI. Advisory activities

74. The external and internal environment in which UNFPA operates is changing in view of (a) increased non-core funding, with numerous separate agreements; (b) increased accountability, and numerous assessments, including of the internal audit and investigation functions; (c) the move to reporting on results, and questions around reporting systems and policies; (d) the increasing decentralization of operations and use of implementing partners; (e) new and enhanced ICT systems; and (f) the challenges of implementing a comprehensive enterprise risk management process and internal control framework.

75. This led to increased demands on OAIS' advisory services which covered a wide range of topics:

(a) *Agreements*. OAIS reviewed audit and investigation clauses in multiple versions of the 34 agreements brought to its attention in 2014 (25 in 2013). It also participated in negotiations on the same upon request of donors;

(b) *Audit and investigation assessments*. OAIS was involved in in-depth reviews conducted by several donors, e.g. the European Union, the Multilateral Organisation Performance Assessment Network (MOPAN) and the United Kingdom, or questions raised by other donors;

(c) *Board-level policies*. OAIS led the revision of the oversight policy and was deeply involved in the revision of the Financial Regulations and Rules;

(d) *Internal policies*. OAIS provided inputs regarding to approximately 20 policies and procedures (a dozen in 2013);

(e) *Support to UNFPA senior management*. This includes, but is not limited to, OAIS participation as an observer in various steering or working committees, for instance, on the Audit Monitoring Committee or the interdivisional Resource Mobilization Committee; and

(f) *General support to UNFPA staff*.

[17] Included those for advisory, as they require attention and follow-up.

76. These demands were ad-hoc by nature; many required responses within very short timeframes; several required a significant investment, especially by OAIS management. The consequent disruption to other activities, exacerbated by this 'domino-effect', prompts the need for discussion as to expectations of OAIS.

77. OAIS, however, continues to underscore that it does not assume any management responsibilities, for example, in making decisions or implementing recommendations emanating from OAIS.

VII. Coordination within the United Nations system

A. Internal audit

78. In 2014, OAIS pursued its active involvement in inter-agency activities and meetings on internal audit. OAIS participated in the practices and experience exchange between the internal audit services of the United Nations Organizations, Multilateral Financial Institutions and Other Associated Intergovernmental Organizations (UN-RIAS).

79. In 2014, OAIS became UN-RIAS Vice-Chair for joint audits and focal point for United Nations Development Group (UNDG) interactions. Under the joint leadership of OAIS and the Office of Audit and Investigations of UNDP, UN-RIAS adopted the Framework for Joint Internal Audits of Joint United Nations Activities. OAIS led the UN-RIAS interactions on the legal instruments for joint funding mechanisms. OAIS was also involved in two joint audits in 2014.

B. Investigation

80. In 2014, OAIS continued working in close collaboration with other United Nations investigation services. It was active in inter-agency investigation activities and support, in the meetings of the United Nations investigation offices and at the Conference of International Investigators where, with the adoption of the final document,[18] OAIS completed its participation in the working group on setting up external quality-review mechanisms for investigation services.

C. Joint Inspection Unit

81. Lastly, in 2014, OAIS continued its role as the UNFPA focal point for the Joint Inspection Unit, interacting on about 20 reports at various stages of completion with UNFPA units, the Joint Inspection Unit and the Secretariat of the Chief Executives Board.

VIII. Overall conclusion and next steps

82. The results of the various OAIS activities, as well as the actions taken by management to address the issues raised by OAIS, continue to demonstrate management's commitment to the increasing effectiveness of the governance, risk management and control processes at UNFPA. The continuing support of senior management, the Audit Advisory Committee and the Executive Board has enabled OAIS to carry out its mandate as successfully as possible.

[18] General Principles for Reviews of CII Investigation Offices conducted by external experts.

83. Looking ahead, the main challenge for OAIS is the alignment of expectations to resources. In particular, a dialogue between the Executive Board and management, with the support of OAIS, to agree on the trade-off between (a) risk appetite; (b) assurance level for internal audit (coverage) and investigation (addressing allegations); (c) availability for advisory services; and (d) resources made available – to ensure (i) an acceptable internal audit cycle to cover areas of high risk and medium-risk areas; (ii) appropriate handling of complaints (and investigations thereof as needed); and (iii) support for management.

84. The Office of Audit and Investigation Services will continue to provide its services within the resources at its disposal.